Project Funding Options

Federal agencies have choices when it comes to funding their energy efficiency and renewable energy projects. They can go the traditional route and use direct appropriations or they can choose options that require no large capital outlay. These options include Energy Savings Performance Contracting (ESPC), utility incentives, or a combination of the two. Energy projects financed by the latter options can be paid for out of energy savings at a low net cost to the agency.

Direct Appropriations

Historically, Federal appropriations have provided the bulk of energy efficiency financing for government agencies. Direct appropriations allow the Federal Government to retain all of the savings from cost-effective renovations and do not incur any interest charge. Because the Government's appropriated funds come from tax revenues or bonds, the "cost" to appropriate these funds is generally very reasonable or competitive with commercial rates. This approach also enables the agency to implement an energy efficiency project with minimal contractual obligations. The agency benefits from the energy and cost savings immediately after the project is completed.

With the current emphasis on reducing the Federal Government's appropriations, energy- and facility-related projects not directly related to an agency's mission may not be fully funded or may be delayed. However, as the Government moves toward operating more like a commercial business, reducing the cost of operations through the introduction of energy efficiency and water conservation measures and renewable technologies will become more important.

Energy Savings Performance Contracting

Authorized by the Energy Policy Act of 1992 (EPAct), the ESPC option allows energy service companies to assume the capital costs of installing energy and water conservation equipment and renewable energy systems. In the ESPC process, the energy service company guarantees a fixed amount of energy cost savings throughout the life of the contract (up to 25 years) and is paid directly from those cost savings. Agencies retain 50 percent of the remainder of the energy cost savings for themselves. ("Energy cost savings" refers to any reduction in utilities at a Federal building.) Fifty percent of the energy cost savings is returned to the Treasury.

The ESPC contract sets forth the methods for establishing the base cost and the share of energy cost savings each year. The contract also specifies the method for determining the value of such savings, which may vary from year to year. Energy cost savings may result from the lease or purchase of energy-efficient operating equipment and improvements, altered operation and maintenance, or use of technical services. Agencies may also achieve savings from using cogeneration or heat recovery to improve the efficiency of existing energy sources.

Super Energy Savings Performance Contracting

To make it easier to use the ESPC option, FEMP developed an Energy Savings Performance Contract or "Super ESPC." This type of con-tract is based on the Indefinite Delivery Indefinite Quantity provision of the Federal Acquisition Regulation (FAR). Super ESPCs are regional contracts that allow agencies to negotiate site-specific ESPCs with an energy service company without having to start the contracting process from scratch.

The Super ESPC contract contains terms and conditions generally applicable to most ESPC projects. When using Super ESPCs, agencies need only to focus on site-specific and agency requirements that apply to their project. In this way, agencies can effectively "piggyback" their own ESPC projects onto a broader Super ESPC, saving time as well as energy and money.

Utility Incentives

Although the pending restructuring of the electric utility industry has created a great deal of uncertainty, it also has created the perfect environment for public/private partnerships between Government agencies and franchised or servicing utility companies. More and more utilities, soon faced with competition, are responding to Federal customer requests by providing them energy service programs in hopes of retaining their large accounts. And often utilities offer financial or other incentives to install energy-efficient equipment or construct more energy-efficient buildings. In addition, utilities can offer incentives for water conservation measures at the same level they offer energy efficiency measures.

EPAct authorizes and encourages Federal agencies to participate in utility incentive programs. These programs range from rebates on a piece of equipment all the way to delivering a complete turnkey project. Services provided for a project can range anywhere from auditing to installation and commissioning, including financing the entire project. Utilities may cover the capital costs of the project in consideration of the energy savings the retrofits will produce. In this arrangement, the net cost to the Federal agency remains minimal, and the agency saves time and resources by using the "one-stop shopping" provided by the utility.

Combinations of Financing

Agencies can take advantage of the availability of different financing options, choosing those that best fit their needs. Many times that means using a combination of options to come up with the smartest strategies for reducing energy costs. Carefully matching financing options, such as utility incentives and ESPC, with specific situations can make the difference between a promising project stalled because it lacks adequate government funding and a successful project resulting in energy and money savings.

For More Information

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For information about Utility Incentives, please contact Brad Gustafson of FEMP at (202) 586-.

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